

MINUTES

Wednesday, December 3, 2014

401(A) ADVISORY COMMITTEE

**East Bay Municipal Utility District
375 Eleventh Street
Oakland, CA 94607**

A regular meeting of the 401(a) Advisory Committee convened on Wednesday, December 3, 2014 at 12:08 am in the Small Training Resource Center (TRC) of the Administration Building. The meeting was called to order by Committee Chairperson Delores Turner.

ROLL CALL

The following 401(a) Advisory Committee Members were present: Sophia Skoda and Delores Turner (absent Committee Member was Eric Sandler).

The following Staff members were present: Lisa Sorani, Elizabeth Grassetti, and Dhanyale Dunbar.

Others present were: Hyas Group (Greg Settle) and Fidelity Investments (Tony Frankovich, Suzanne Rogers, and Lesley Simsich)

PUBLIC COMMENT

NONE

CONSENT CALENDAR

1. **Approval of Minutes** – A motion was made by Delores Turner and seconded by Sophia Skoda to approve the September 3, 2014 minutes. The motion carried (2-0-1) by the following vote: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler).

DISCUSSION

2. **Fidelity Service Report** – Tony Frankovich informed the Committee that this would be Suzanne Roger's last meeting as he is replacing her as Fidelity's Sr. Relationship Manager to EBMUD. Combined assets for the third quarter of 2014 were \$338,253,904 with 2,988 participants. The top four investments by total assets were Vanguard Institutional Index, BrokerageLink®, Fidelity Managed Income Portfolio II, and Fidelity Blue Chip Growth K. Tony reviewed distributions from the Plans from 9/2013 to 9/2014, by non-active employees. There were 580 distributions amounting to \$3.8 million dollars, 27 rollovers from the Plans to Fidelity amounting to \$9.6 million dollars, and 27 rollovers to other plans, amounting to \$4.1 million dollars. The Committee requested this information be provided for all future meetings.
3. **Regulatory Update & Market Overview** – Greg Settle provided a market overview for the quarter. Highlights include the following:
 - The IRS announced increases to contribution limits for 2015.
 - PIMCO founder and executive Bill Gross unexpectedly resigned and moved to Janus.

- The US unemployment rate ticked lower as the US economy strengthened, with the GDP for the 3rd quarter coming in at 3.5%.
 - The Eurozone economy continued to struggle with zero or even negative growth year for Europe with continued troubles in the Ukraine and Middle East.
 - There is movement in Congress to eliminate ability to contribute to 401(k) and 457 simultaneously and to create a single 401(X) plan eliminating the 457 advantage of no tax penalty for early distributions.
 - The Fed completed the phase-out of Quantitative Easing program in November.
4. **Investment Performance Summary** – Greg Settle informed the Committee that three funds; Fidelity Managed Income Portfolio II Class I (MIP), PIMCO Total Return Institutional, and Morgan Stanley Institutional Mid Cap Growth I failed the investment policy criteria. The MIP fund had poor performance and was down 30 basis points. PIMCO lost billions due to Bill Gross’ sudden departure. Morgan Stanley’s performance was in the 63rd percentile due to the fund’s international investments and overweight in IT investments, and it was recommended that it be placed on watch. It was noted that average participant costs (investment expense ratio) decreased significantly from 0.55% in the fourth quarter of 2012 to 0.41% in the third quarter of 2014. The Committee requested that revenue share amounts be included for future meetings. A motion was made by Delores Turner and seconded by Sophia Skoda to put Morgan Stanley on watch. The motion carried (2-0) by the following votes: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler).
5. **Fidelity Blue Chip Growth versus American Century Select** – Greg Settle compared the large cap growth managers, American Century Select and Fidelity Blue Chip Growth. American Century Select targets high quality companies while Fidelity Blue Chip Growth has a more aggressive strategy that garners a higher return with a lower expense ratio and higher revenue share credit. Hyas suggested consolidating the funds to eliminated participant confusion of offering two large cap growth funds within the core options. A motion was made by Delores Turner and seconded by Sophia Skoda to close, map and redirect future contributions of American Century Select to Fidelity Blue Chip Growth. The motion carried (2-0) by the following votes: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler).
6. **Fund Manager Search for Possible Replacement of PIMCO** – Greg Settle updated the Committee on PIMCO. He recommended the fund be replaced due to the sudden departure of its founder, Bill Gross. Hyas Group performed a manager search and reviewed the four leading candidates. Of the four, Sterling Total Return was not recommended as it was more appropriate for plans without an index fund. Scout Core Plus had the best recovery from market down-turns, and was in the top 20th percentile for the past five years, and is expected to have the best returns if interest rates rise. Metropolitan West Total Return is similar to PIMCO, and has a small amount of foreign exposure. Western Asset Core Plus has higher exposure to some lower-quality investment grade and below investment grade (“junk” or “high yield”).

A motion was made by Delores Turner and seconded by Sophia Skoda to close PIMCO, add Scout Core Plus, and map and redirect future contributions of PIMCO to Scout Core Plus. The motion carried (2-0) by the following votes: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler).

7. **Reopen Motion to Combine the 401(k)/457 Committee with the 401(a) Committee, and Change to Adding Local 2019, 21, and 39 Committee Members to the 401(a) Advisory Committee and Conducting Both Committee Meetings Simultaneously** – Delores Turner informed the Committee that the motion that was accepted at the last meeting to combine the meetings was not proper and needed to be rescinded and replaced. A motion was made by Sophia Skoda and seconded by Delores Turner to rescind the previous motion to combine the Committees and made a motion to add 2019, 21, and 39 Committee Members to the 401(a) Committee and conduct the Committee meetings simultaneously. The motion carried (2-0) by the following votes: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler).

ITEMS CALENDARED FOR FUTURE MEETINGS

- NAGDCA Highlights
- Revenue Share Policy

ADJOURNMENT

Delores Turner moved the meeting be adjourned. The motion was seconded by Sophia Skoda and carried (2-0) by the following votes: AYES (Skoda and Turner), NOES (none), ABSTAIN (none), ABSENT (Sandler). The meeting adjourned at 12:20 pm.